

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-01 INR-07
L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15
USIA-06 AID-05 COME-00 EB-07 FRB-03 TRSE-00
XMB-02 OPIC-03 LAB-04 EPG-02 SIL-01 OMB-01 STR-04
/090 W

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P R 100844Z JUN 77
FM AMEMBASSY ANKARA
TO SECSTATE WASHDC PRIORITY 7085
INFO AMEMBASSY NICOSIA
AMEMBASSY ATHENS
AMEMBASSY PARIS
AMEMBASSY BRUSSELS
AMCONSUL ISTANBUL
AMCONSUL IZMIR
AMCONSUL ADANA
AMCONSUL ZURICH
USMISSION NATO

C O N F I D E N T I A L SECTION 1 OF 2 ANKARA 4460

USOECD, USEEC

E.O. 11652: GDS
TAGS: EFIN, PFOR, TU
SUBJECT: IMPACT OF ELECTORAL STANDOFF ON TURKISH ECONOMY

REF: (A) ANKARA 3188 (NOTAL), (B) ANKARA 3329 (NOTAL),
(C) ANKARA 3385 (NOTAL), (D) ZURICH 296 (NOTAL)

SUMMARY. ELECTION RESULTS SO FAR HAVE BEEN INDECISIVE.
BUT, NO MATTER WHO IS THE NEW PRIME MINISTER, TIME IS
RUNNING OUT FOR TURKEY TO TREAT ITS ACUTE FOREIGN EXCHANGE
SHORTAGE. IF A GOVERNMENT CANNOT TAKE DECISIVE
MEASURES OF ECONOMIC DISCIPLINE WITHIN NEXT FEW WEEKS, IT IS
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POSSIBLE THAT US GOVERNMENT COULD BE APPROACHED BY TURKISH
GOVERNMENT, IF NOT BY AMERICAN COMMERCIAL BANKS, WITH REQUEST
FOR DISCUSSION OF PROBLEM, INCLUDING POSSIBLE EMERGENCY STANDBY
CREDIT. SITUATION AT THAT POINT WOULD HAVE BECOME A PRO-
MINENT FACTOR IN POLITICAL RELATIONSHIP BETWEEN US AND TURKEY.
END SUMMARY.

1. IN ABSENCE OF AN EFFECTIVE GOVERNMENT TO COPE WITH PROBLEM, OFFICIAL TURKISH GOLD AND FOREIGN EXCHANGE RESERVES FELL FROM \$1 BILLION AT END OF 1976 TO \$500-600 MILLION WHERE THEY HAVE BEEN HOVERING SINCE MARCH, BARELY THE EQUIVALENT OF ONE MONTH'S IMPORT BILL. (RESERVES WERE \$616 MILLION ON MAY 27, INCLUDING \$148 MILLION IN GOLD VALUED AT OFFICIAL IMF RATE.) CENTRAL BANK OWES \$200-300 MILLION TO ITS CORRESPONDENT BANKS FOR PAYMENTS ORDERED WITHOUT SUFFICIENT FUNDS ON DEPOSIT.

2. UNTIL GOVERNMENT IS ABLE TO TAKE CORRECTIVE MEASURES, BANK CAN ONLY COPE WITH SHORTAGE IN TEMPORIZING WAY. IT HAS BEEN FORCED TO WITHHOLD AUTHORIZATION FOR AN ESTIMATED \$1 BILLION OUTSTANDING IN REQUESTS FOR TRANSFERS OF FOREIGN EXCHANGE TO PAY FOR IMPORTS (IN MOST CASES, OF COURSE, THESE GOODS HAVE NOT YET BEEN SHIPPED), HAVING STOPPED PAYMENT AUTHORIZATIONS FOR ALL IMPORTS EXCEPT PETROLEUM AND A FEW OTHER PRIORITY ITEMS. (INDICATIONS ARE THAT IMPORT FIGURES WILL BEGIN TO DECLINE IN MAY.) IT HAS ARRANGED SPECIAL STANDBY CREDIT, REPORTEDLY OF \$200 MILLION, OBTAINED FROM DEUTSCHE BUNDESBANK AGAINST POSSIBLE CALL-IN OF SHORT-TERM CONVERTIBLE LIRA DEPOSITS (CLD'S: FOREIGN LOANS FOR WHICH CONVERTIBILITY IS GUARANTEED) UPON MATURITY. IT HAS ORDERED COMMERCIAL BANKS TO TURN IN FOREIGN EXCHANGE PROMPTLY UPON RECEIPT.

3. TRADE DEFICIT IN FIRST FOUR MONTHS WAS IMMEDIATE CAUSE OF FOREIGN EXCHANGE SHORTAGE. DEFICIT FOR PERIOD TOTALED \$1.4 BILLION (\$2.0 BILLION IN IMPORTS; \$643 MILLION IN EXPORTS, DOWN 30 PERCENT FROM 1976). POOR TRADE PERFORMANCE HAS BEEN DUE TO COMBINATION OF INFLUENCES. DISAPPOINTING
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EXPORTS OF AGRICULTURAL PRODUCTS RESULTED FROM UNREALISTIC PRICE EXPECTATIONS FOR TOBACCO AND WHEAT AND LACK OF EXPORTABLE SURPLUS OF COTTON. OVER-AMBITIOUS PUBLIC AND PRIVATE INVESTMENT PROGRAMS REQUIRED IN THIS PERIOD, AS IN THE PAST, LARGE VOLUME OF IMPORTS. UNCERTAINTY OVER ECONOMIC POLICIES OF ANY NEW GOVERNMENT COMING INTO OFFICE AFTER JUNE 5 ELECTION LED SOME IMPORTERS TO STOCK SUPPLIES AND SOME EXPORTERS TO DEFER SHIPMENTS.

4. WARY OF SITUATION, INTERNATIONAL BANKS HAVE HELD OFF GIVING NEW CREDITS TO TURKEY. AMERICAN BANKERS HAVE REPEATEDLY TOLD US THAT FURTHER COMMERCIAL CREDITS FROM U.S. AND OTHER FOREIGN BANKS ARE CONTINGENT UPON COUNTRY'S ADOPTION OF SENSIBLE ECONOMIC STABILIZATION MEASURES. CENTRAL BANK OFFICIALS BELIEVE THAT IT WILL BE NECESSARY FOR TURKEY TO MAKE USE OF ALL IMF FACILITIES OPEN TO IT; IMF, TOO, CONDITIONS AVAILABILITY OF CREDITS UPON ACCEPTABILITY OF ECONOMIC PROGRAMS.

5. TWO BIG QUESTIONS NOW ARE: HOW LONG WILL IT TAKE TO FORM A NEW GOVERNMENT AND, AFTERWARDS, TO FORMULATE AN ECONOMIC PROGRAM THAT WILL RESTORE THE CONFIDENCE OF THE INTERNATIONAL FINANCIAL COMMUNITY? CENTRAL BANK'S DIRECTOR OF FOREIGN EXCHANGE (CANEVI) TOLD EMBOFFS CONFIDENTIALLY JUNE 7 THAT FOREIGN EXCHANGE SITUATION WILL HOLD TOGETHER FOR NO LONGER THAN ONE MONTH WITHOUT GOVERNMENT ACTION. IF NEW GOVERNMENT CANNOT BE FORMED QUICKLY, OR, ONCE FORMED, CANNOT PROMPTLY FORMULATE ECONOMIC PROGRAM THAT WILL RESTORE CONFIDENCE OF INTERNATIONAL FINANCIAL COMMUNITY, FEAR EXISTS WITHIN CENTRAL BANK THAT BANK COULD NOT HANDLE SITUATION SHOULD SOME HOLDERS OF TURKEY'S \$2.1 BILLION IN NET SHORT-TERM CLD'S (ACCUMULATED SINCE MAY 1975) CALL THESE LOANS ON MATURITY AND PRECIPITATE LIKE DEMANDS BY OTHERS. U.S. BANKS HOLD AT LEAST 60 PERCENT OF CLD'S. ON THE OTHER HAND, EMBOFFS BELIEVE, FROM DISCUSSIONS WITH BANKERS, THAT IF TURKEY BEGAN TO TAKE STEPS TOWARD A REASONABLE ECONOMIC PROGRAM AND BEGAN CON-
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SULTATIONS WITH IMF, BANKS WOULD RESUME LENDING TO A COUNTRY WHICH THEY GENERALLY REGARD AS HAVING EXCELLENT LONG-TERM PROSPECTS.

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ACTION EUR-12

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FM AMEMBASSY ANKARA
TO SECSTATE WASHDC PRIORITY 7806
INFO AMEMBASSY NICOSIA
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C O N F I D E N T I A L SECTION 2 OF 2 ANKARA 4460

USOECD, USEEC

6. PRESENT SIZE OF MEDIUM AND LONG-TERM FOREIGN DEBT IS NOT A SERIOUS PROBLEM. TURKEY'S TOTAL DEBT, MEDIUM AND LONG-TERM, PAYABLE IN OREIGN EXCHANGE, INCLUDING UNDISBURSED PORTIONS, WAS \$5.5 BILLION AT END OF 1976. (COMPARABLE FIGURE FOR END OF 1975 WAS \$4.1 BILLION.) ABOUT 85 PERCENT OF THIS DEBT IS OWED TO FOREIGN GOVERNMENTS AND INTERNATIONAL ORGANIZATIONS (\$1.3 BILLION TO U.S. GOVERNMENT; \$700 MILLION TO FEDERAL REPUBLIC OF GERMANY, OF WHICH OVER \$200 MILLION IS UNDISBURSED; AND \$1.1 BILLION TO THE IBRD, OF WHICH \$725 MILLION IS UNDISBURSED). MOST OF THESE CREDITS HAVE LONG MATURITIES (\$2.5 BILLION MATURES BETWEEN 1985-2022) AND RELATIVELY CONFIDENTIAL

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LOW INTEREST RATES. HOWEVER, AS A RESULT OF INCREASED COMMERCIAL BORROWING OVER PAST YEAR, TURKISH DEBT-SERVICE RATIO HAS BEEN RISING. DEBT SERVICE, AS A PERCENTAGE OF WORKER REMITTANCES PLUS EXPORTS OF GOODS AND SERVICES, WAS APPROXIMATELY 20.5 PERCENT IN 1971, 9.6 PERCENT IN 1975, NEARLY 12 PERCENT IN 1976, AND IT COULD REACH 14 PERCENT IN 1977. WHILE THE ADDITION OF DEBT SERVICE ON CLD'S AND OTHER DEBTS UNDER ONE YEAR, NOT INCLUDED IN FUGURES ABOVE, COULD RAISE DEBT SERVICE TO 20 PERCENT, THIS FIGURE IS MANAGE-ABLE. A NEW GOVERNMENT WOULD, HOWEVER, HAVE TO CONSIDER WHE- THER OR NOT IT SHOULD BEGIN TO CUT DOWN THE RATE OF NEW FOREIGN BORROWING, PARTICULARLY SHORT-TERM.

7. IT WILL ALSO HAVE TO CONSIDER WITHOUT DELAY WHAT CAN BE DONE TO BILD UP FOREIGN RESERVES AND IMPROVE THE BALANCE OF PAYMENTS, PARTICULARLY THE BALANCE OF TRADE. MANY OPTIONS ARE OPEN SINGLY AND IN COMBINATION, INCLUDING REDUCTION OF IMPORTS (AT POSSIBLE COST OF INVESTMENT AND GNP GORWTH RATES), EXPANSION OF EXPORTS (A LIMITED POSSIBILITY IN THE SHORT RUN), DEVALUATION (IN THE SHORT TERM, AN EXACERBATION OF THE PAYMENTS PROBLEM), RESTRUCTURING INVESTMENT PRIORITIES (DE-EMPHASIS OF INVESTMENT FOR IMPORT SUBSTITUTION AND PRODUCTION OF CONSUMER GOODS IN FAVOR OF INFRASTRUCTURE AND EXPORT-ORIENTED INDUSTRIES).

8. WITHOUT PROMPT ACTION ON THESE PROBLEMS, CENTRAL BANK MIGHT BE UNABLE TO MEET SOME OF ITS OBLIGATIONS. TO SAVE SITUATION AT THAT POINT, IT IS NOT INCONCEIVABLE THAT

TURKISH GOVERNMENT MIGHT APPROACH U.S. GOVERNMENT TO
DISCUSS FOREIGN EXCHANGE SHORTAGE AND ASK FOR EMERGENCY
CREDIT TO ALLOW TIME TO DEVELOP STABILIZATION PROGRAM THAT WOULD
WIN CONFIDENCE OF INTERNATIONAL LENDERS.

9. SHEER SIZE OF AMERICAN BANK IN TURKEY IS, INDISPUTABLY,
A FACTOR IN OUR POLITICAL RELATIONSHIP. TURKISH GOVERNMENT
HAS LATELY TRIED TO ASSERT THAT US GOVERNMENT HAS SET RESTRICTIVE
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CREDIT POLICIES TOWARDS TURKEY FOR AMERICAN COMMERCIAL BANKS
(REFS B AND C). IF TURKEY WERE FORCED TO
APPLY TO US FOR EMERGENCY CREDIT, US RESPONSE WOULD BE
READ HERE ALMOST WHOLLY IN POLITICAL TERMS.
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Message Attributes

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Disposition Approved on Date:
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Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
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